Agdevco

Agricultural Development
Corporation of Saskatchewan

86-04972/

Letter of Transmittal

To His Honour,
The Honourable Frederick W. Johnson
Lieutenant Governor of the Province of
Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Agricultural Development Corporation of Saskatchewan for the year ending December 31, 1985, including financial statements for the year duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with the Crown Corporations Act.

I have the honour to be, Sir,

Your obedient servant,

Eric Berntson
Deputy Premier
Chairman of the Agricultural Development
Corporation of Saskatchewan

Corporate Mission

Through Agdevco's highly skilled and effective employees, the Corporation operates two complimentary businesses:

- Trade and Countertrade of Agricultural and Industrial commodities and products
- Turnkey International Agricultural Project Management Services.

Hereford buyers from Hungary attended the 1985 Canadian Western Agribition, hosted by Dr. M. Menhart from Agdevco.

Corporate Objectives

Trade and Countertrade

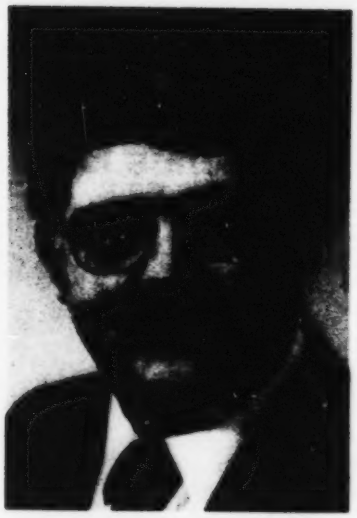
To build and expand a Saskatchewan based fully integrated profitable internationally recognized Trading and Countertrading company staffed by highly motivated and effective employees.

International Services

To build and expand a Saskatchewan based internationally recognized profitable agricultural consulting and project management company staffed by skilled and dynamic employees with a broad range of international agricultural management expertise.

The Province of Sichuan, Peoples Republic of China is one of Agdevco's new markets.

Chairman of the Board

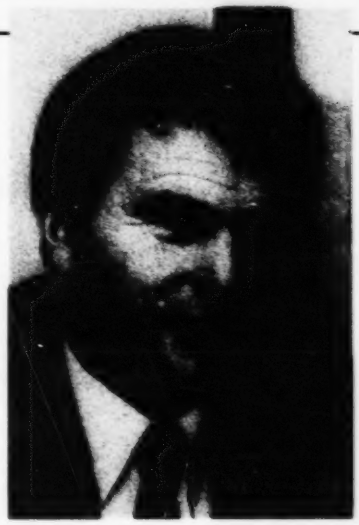


Honourable Eric Berntson

Board of Directors

Honourable Eric Berntson	Chairman	Regina
Jack Drew	Vice Chairman	Regina
Ken Alger		Meadow Lake
Stuart Rempel		Swift Current
Jake Willms		Dundurn
Ian Disbery	Corporate Secretary	Regina

President's Report



Agdevco embarked upon a major expansion phase during 1985. Investments through the International Services Division in the Middle East and Asia was the main reason for the Corporation's operating loss during 1985. While the result was not unexpected it was hoped that major commercial contracts would be signed before the year ended. Unfortunately this was not to be the case.

In the international marketplace, risks are high and investments, especially in Third World markets, are slow to return benefits. In spite of the operating loss in 1985 the Corporation successfully contracted two new CIDA projects towards the end of the year. One of the new projects is based in Egypt and broadens Agdevco's international base, which was previously concentrated in Africa. The second new project is in the Peoples Republic of China and is a major achievement for Agdevco, since we now have a base in Asia from which we can direct our activities for this expanding market.

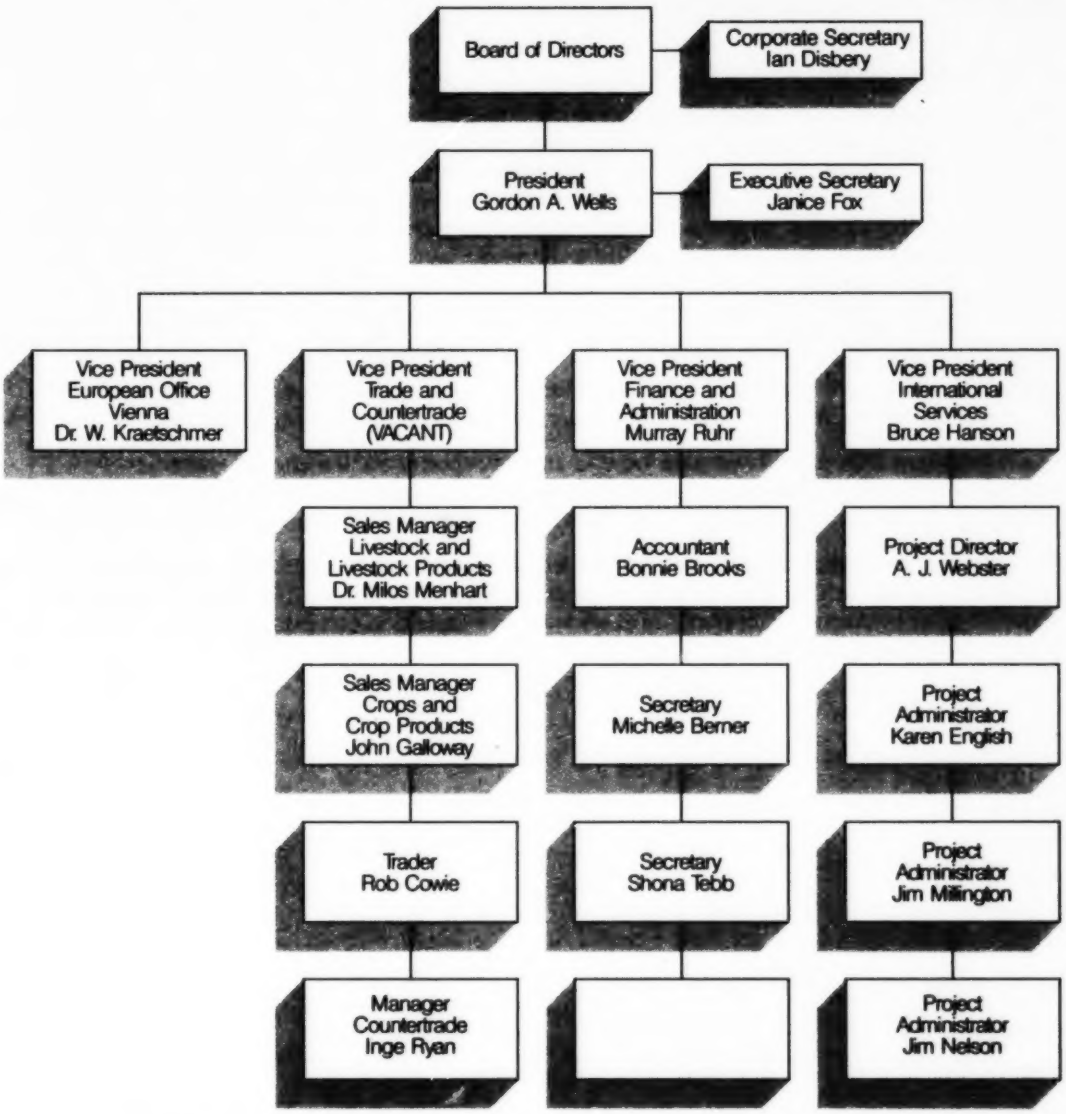
These new projects did not show up on our 1985 income statement but will provide significant additional revenue in 1986. In combination with our existing African projects our International Services Division will recover most of its 1985 losses. If our investment in commercial projects through the International Services Division are realized, we can expect to regain our previous profitable position again in 1986.

In 1985 our Trading and Countertrading Division operated at a modest profit level. Continued drought in 1985 reduced the supply of several commodities which seriously affected our volume of business. One major livestock sale did not materialize as anticipated and reduced revenue compared to the previous year's level.

Investment in Trade and International Project Management business development is critical to Agdevco's long term commercial success. In 1985 we invested in several business development activities which will take two or three years before we can expect results. While the immediate impact resulted in a loss for the company in 1985, we fully expect to be profitable in 1986.

Gordon A. Wells,
President

Organizational Chart



Senior Management

President and Chief Executive Officer	Gordon A. Wells
Vice President Finance and Administration	Murray Ruhr
Vice President International Services	Bruce Hanson
Vice President Trade and Countertrade	Vacant

DIVISION HIGHLIGHTS

Trade and Countertrade

Livestock Trading

Previous years' investment in new export markets is beginning to open up new export markets for Agdevco's livestock. Eastern Europe continued to be our strongest performer. There is no doubt that our presence in this region through our Vienna office has provided credibility to our marketing efforts. Follow up services to existing customers as well as opening up new markets which previously did not exist can be attributed solely to the Vienna office. Adding a highly professional and competent Head Office staff rounded out a successful year. One major highlight was Agdevco's attendance at the 1985 OMEK Agricultural Exhibition. This exhibition is held in Budapest, Hungary every five years. Agdevco exhibited high quality beef and dairy breeding stock at the show which had been purchased in advance by a highly regarded Hungarian client.

New markets were also penetrated in Western Europe and Asia in 1985. These regions will continue to grow in importance as our high quality breeding stock continue to gain worldwide recognition.

Our livestock trading capability goes far beyond just the export of the live animals, semen or embryos. It includes preselection, quarantine, transportation, insurance, documentation as well as consulting services in the areas of nutrition, genetics, veterinary care and general animal husbandry.

We are also active in the export of such specialized items as leafcutter bees, which are used for pollination of alfalfa crops. Agdevco has also exported Wapiti breeding stock. Our highly diversified expertise gives customers an opportunity to work with a reliable and competent Canadian supplier of high quality livestock and livestock products.

Crop Trading

A second consecutive year of extremely dry weather conditions combined with a severe grasshopper infestation caused major yield reductions for Specialty Crops in the Province. One benefit of the lower yields was a very strong demand for Specialty Crops especially lentils, where prices reached record levels.

One highlight for the crops trading area was their instrumental role in the shipment of 23,100 metric tonnes of Canadian Hard Red Spring Wheat to Ethiopia and the Sudan in aid of the African Famine Relief Program. Agdevco in association with the Canadian Foodgrains Bank, the Western Canadian Elevators Association and the Canadian Wheat Board put the program together in a very short period in response to an urgent need for food. Saskatchewan farmers responded as well and donated grain to the program. The Canadian and Saskatchewan Governments jointly financed the major portion of the donation.

In spite of the poor growing conditions Saskatchewan farmers maintained their keen interest in growing Specialty Crops. Lower prices for cereal grains and oilseeds maintained strong interest in the specialty crop area. Our proven export record has convinced increasing numbers of farmers to contract their production with Agdevco.

Our Vienna office also provided follow up service to our Specialty Crop clients in Eastern and Western Europe. Lentils, canaryseed and mustardseed as well as yellow field peas combined to form the bulk of Agdevco's export sales. Lesser quantities of Wild Rice, Fababeans and similar specialized products were also traded by the Corporation.

New markets were secured in the Far East as a result of aggressive market promotion by the Corporation and will add to Agdevco's worldwide trading network.

Countertrade – Vienna

Agdevco's countertrading capabilities continued to develop as our Vienna office led the way in opening up new and difficult foreign markets. Many countries want to buy Canadian products but they lack the foreign exchange. Agdevco's countertrade capabilities are still a long way from our ultimate goal, however as each year passes, we gain in experience.

We have established a worldwide trading network which gives us the capability to trade in any direction together with the added benefit of trade financing, offset obligations and risk management. Our trading strength has been built on agriculture, but we are expanding into a number of complimentary areas.

Countries that lack foreign exchange need to trade what they produce if we expect them to buy from Canada. Agdevco's unique ability to meet the needs of both buyer and seller through countertrade is a major asset for Canadian companies who want to export but lack the necessary expertise. Our Vienna office which is staffed by experienced Countertrade staff, is familiar with all aspects of countertrade negotiations. In combination with our Head Office in Canada and our association with companies around the world, Agdevco is succeeding in opening up new export markets previously unavailable to our producers and manufacturers.

International Services

While 1985 was not a financial success for the company, Agdevco's decision to make major investments in the area of turnkey agricultural project management will in the long run prove out to be correct. Two new CIDA projects were negotiated and signed in 1985. Agdevco is now managing four major international agricultural projects.

The two original projects in Zambia and Lesotho involve wheat research and rural development, respectively. Of particular significance is the recently signed integrated soil and water project in Egypt which places Agdevco in the Middle East market for the first time.

Our most satisfying project which was just negotiated and signed in December is the dairy, forage and soil improvement project situated in the Province of Heilongjiang in the Peoples Republic of China. The revenue from this project will not appear until early 1986.

The negotiations for these and other international projects take considerable human and financial resources. Companies active in this type of business consider the normal success rate of one or two projects for every eight or ten that they compete for. Considering the high overhead cost traditionally inherent in Canadian companies who are competing with companies from France, West Germany, Great Britain, the United States and Japan for these projects it becomes readily apparant how difficult it is for us to be competitive.

Agdevco offers complete turnkey international agricultural project management services. Our professional and highly competent employees are specialized in a wide range of subject matters and have overseas experience which complement the variety of technical packages offered by Agdevco.

Our expertise includes:

- Engineering design, construction and supervision.
- Dryland mechanized farming.
- Irrigation systems.
- Agricultural research and extension systems.
- Farm implement and machinery procurement.
- Livestock procurement.
- Livestock production and processing systems.
- Veterinary clinics.
- Artificial insemination units.
- Embryo transplants — fresh and frozen.
- Dairy facilities.
- Ultra high temperature (U.H.T.) milk processing facilities.
- Feed testing laboratories.
- Range management and conservation.
- Soil surveys.
- Soil testing laboratories.
- Groundwater surveys and development.
- Integrated rural development projects.
- Project management.
- Pre-feasibility and feasibility studies.
- Turnkey project management.
- Project procurement and export shipping of equipment.

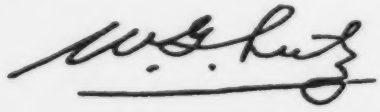
Agdevco is affiliated with a number of Canadian and International companies capable of providing a wide range of services. We presently have three office in Canada as well as offices in Zambia, Lesotho, Egypt, Pakistan and Austria. As our reputation continues to grow in the world marketplace opportunities for trade and services through Agdevco continue to expand.

Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan

I have examined the statement of financial position of the Agricultural Development Corporation of Saskatchewan as at December 31, 1985 and the statements of operations and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Regina, Saskatchewan,
February 24, 1986.

W. G. Lutz, F.C.A.,
Provincial Auditor.

Statement 1

Agricultural Development Corporation of Saskatchewan

Statement of Financial Position

As At December 31

	[illegible]	1984
ASSETS		
Cash and short term deposits	$ [illegible]	$ 935,327
Accounts receivable – trade	[illegible]	799,642
– other	[illegible]	16,933
Note receivable due within one year (Note 3)	[illegible]	24,281
Inventory	[illegible]	249,526
Prepaid expenses	[illegible]	34,804
	[illegible]	2,060,513
Note receivable (Note 3)	[illegible]	169,966
Fixed assets (Note 5)	[illegible]	106,986
	[illegible]	$2,337,465
LIABILITIES AND PROVINCE'S EQUITY		
Liabilities:		
Bank indebtedness	$ [illegible]	$ —
Accounts payable – trade	[illegible]	1,285,403
– other	[illegible]	55,988
Long term debt due within one year (Note 8)	[illegible]	17,500
Advances – international projects (Note 6)	[illegible]	79,512
Deferred revenue (Note 7)	[illegible]	93,144
	[illegible]	1,531,547
Long term debt (Note 8)	[illegible]	126,875
Obligations under capital leases (Note 9)	[illegible]	39,418
	[illegible]	1,697,840
Province of Saskatchewan's equity:		
Advance (Note 10)	[illegible]	117,473
Retained earnings	[illegible]	522,152
	[illegible]	639,625
	[illegible]	$2,337,465

(See accompanying notes)

Statement 2

Agricultural Development Corporation of Saskatchewan

Statement of Operations and Retained Earnings

Year Ended December 31

	1984
Revenue:	
Product sales	$3,881,251
Commissions and fees	364,721
Grant from Department of Economic Development and Trade (Note 7)	158,335
Investment income	102,522
Other income	48,419
	4,555,248
Expenditure:	
Cost of product sales	3,524,088
General and administrative	946,323
Interest expense	18,269
Write-off of investment (Note 4)	—
	4,488,680
Net income (loss)	66,568
Retained earnings, beginning of year	455,584
Retained earnings, end of year	$ 522,152

(See accompanying notes)

Statement 3

Agricultural Development Corporation of Saskatchewan

Statement of Changes in Financial Position

Year Ended December 31

	[illegible]	1984
Cash provided by (used in):		
Operating activities		
Net income (loss)	[illegible]	$ 66,568
Add items not requiring cash		
– Depreciation	[illegible]	7,215
– Write-off of investment	[illegible]	—
	[illegible]	73,783
Net change in non-cash working capital items	[illegible]	(119,454)
	[illegible]	(45,671)
Investment activities		
Purchase of fixed assets	[illegible]	(86,592)
Reduction in note receivable	[illegible]	24,281
Investment in joint venture	[illegible]	—
	[illegible]	(62,311)
Financing activities		
Proceeds of short term borrowing (Note 13)	[illegible]	—
Repayment of short term borrowing (Note 13)	[illegible]	—
Assumption of capital lease obligations	[illegible]	47,720
Repayment of long term debt	[illegible]	(17,500)
Repayment of obligations under capital leases	[illegible]	(2,278)
	[illegible]	27,942
Net decrease in cash position	[illegible]	(80,040)
Cash position, beginning of year	[illegible]	1,015,367
Cash position, end of year	[illegible]	$ 935,327

Cash position is comprised of cash and short term deposits less bank indebtedness.

(See accompanying notes)

Agricultural Development Corporation of Saskatchewan

Notes to the Financial Statements

December 31, 1985

1. **Status of the Corporation**

Under the authority of an Order in Council, the Saskatchewan Trading Corporation, established in 1974 pursuant to the provision of The Crown Corporations Act, was continued as the Agricultural Development Corporation of Saskatchewan effective February 1, 1978. The Corporation was reconstituted to provide services which facilitate domestic and export trade in Saskatchewan agricultural products and to serve as an agency in contracting for and managing international development projects.

The Corporation has been designated by the above Order in Council as a corporation to which the provisions of Part II of The Crown Corporations Act, 1978 apply. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan.

2. **Accounting Policies**

a) **Depreciation and amortization**

The fixed assets of the Corporation are depreciated or amortized on a straight line basis at the following rates per annum:

Office and Other Equipment	10%
Computer Hardware – Owned and Leased	20%
Leasehold Improvements	20%
Computer Software	33⅓%

b) **Translation of foreign currencies**

Balances and transactions in foreign currencies have been translated into Canadian dollars on the following basis:

i) Cash, at the rate prevailing at the balance sheet date.

ii) Hedged revenue transactions and related accounts receivable balances at rates based on Forward Exchange Contracts.

iii) Unhedged revenue and expenditure transactions at provisional rates approximating current rates, adjusted periodically throughout the year.

c) **Inventory**

Inventory is valued at the lower of cost and net realizable value.

d) **Grants**

Grants received in respect of the trade office in Vienna, Austria are included in revenue to the extent of related expenses incurred during the year. Related expenses include all expenses directly attributable to management and operation of the office as well as a portion representing an allocation of overhead costs. Grant receipts in excess of related expenses are reflected as deferred revenue.

e) **Revenue Generating Activities**

The Corporation enters into the following types of revenue generating activities:

i) the Corporation purchases agricultural products from various producers, locates buyers for the products and then enters into sale agreements with the buyers. These transactions are recorded as product sales and cost of product sales in the statement of operations.

ii) in other transactions, the Corporation acts as agent, arranging for direct sales between buyers and producers. For rendering this service, the Corporation earns commissions and only the commissions on these transactions are included in the statement of operations.

iii) the Corporation also earns service fees for the management of special projects and the conduct of research studies. These service fees are also reflected in the statement of operations.

3. **Note Receivable**

In 1983, certain processing equipment was sold to another party in consideration for a promissory note with principal repayments of $24,281 due annually until 1992. The loan bears interest at the prime lending rate minus one quarter percent, but will be subject to adjustment in any year, having regard to the profitability of the operation. The note is secured by the granting of a security interest in the equipment. At December 31, the outstanding balance was $169,966 (1984 - $194,247) of which $24,281 due within one year is included in current assets.

4. **Write Down of Investment**

In October, 1985, the Corporation obtained a 50% interest in APM Agricultural Project Management Limited at a cost of $39,369. The incorporated joint venture, located in Cyprus, was established to pursue projects in Africa and the Middle East. The Corporation's liability is limited to the amount of its investment in the joint venture.

Subsequent to the year end, the Corporation determined that its participation in the joint venture was unlikely to continue as no revenue-producing project contracts had yet been secured by APM. Because the Corporation's share of the joint venture's operating expenses to December 31, 1985, totalling $41,068, exceeded the amount of the original investment, the Corporation has determined that the investment should be written off.

5. **Fixed Assets**

	1985			1984
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Owned Assets				
Office and other equipment	$ 47,658	$11,222	$ 36,436	$ 27,995
Computer software	52,587	13,119	39,468	28,588
Computer hardware	5,116	1,347	3,769	4,792
	105,361	25,688	79,673	61,375
Leasehold Improvements	9,596	640	8,956	—
Leased Assets (See Note 8)				
Computer hardware	65,230	12,295	52,935	45,611
	$180,187	$38,623	$141,564	$106,986

6. **Advances – International Projects**

The Corporation, under terms of agreements entered into with the Canadian International Development Agency (CIDA) and the Saskatchewan Department of Agriculture on behalf of a Federal Provincial program known as VADA (Voluntary Agricultural Development Aid), provides personnel to assist in implementing certain international projects sponsored by the agencies.

Under terms of the agreements, the Corporation assumes responsibility for the procurement of all project inputs of both an operating and a capital nature. Advance funding is normally provided by the agencies and the Corporation submits project cost reports on a periodic basis. The Corporation is fully compensated for the service it provides to the projects including a service fee as an allowance for administrative overhead costs.

7. **Grants and Deferred Revenue**

Grants received from the Department of Economic Development and Trade to manage and operate a trade office in Vienna, Austria and for other purposes are accounted for in accordance with the accounting policy described in note 2(d) as follows:

	1985	1984
Deferred revenue, beginning of year	$ 93,144	$167,479
Grants received	88,666	84,000
Grants recognized as revenue or reduction in expense	(173,546)	(158,335)
Deferred revenue, end of year	$ 8,264	$ 93,144

8. **Long Term Debt**

Long term debt consists of a loan from the Crown Investments Corporation of Saskatchewan. The loan bears interest at the prime lending rate minus one quarter percent. Principal repayments of $17,500 are due in each year to 1992. In addition, a final repayment of $4,375 is due at maturity on October 31, 1992.

9. **Obligations Under Capital Leases**

The following is a schedule of future minimum lease payments under the capital leases expiring June, 1991, together with the balance of the obligations under capital leases.

	1985	1984
Year Ended December 31		
1985	$ —	$12,940
1986	17,375	12,940
1987	17,375	12,940
1988	17,375	12,940
1989	17,375	11,458
1990	4,435	2,124
1991	1,738	—
Total mimimum lease payments	75,673	65,342
Less: amount representing interest at 12¼% - 15½%	19,847	19,900
Present value of obligations	55,826	45,442
Less: amount due in the next year, included in accounts payable	9,574	6,024
Long term obligations under capital leases	$46,252	$39,418

10. **Advance**

The advance from the Crown Investments Corporation of Saskatchewan (C.I.C.) is non-interest bearing and repayment is at the discretion of C.I.C.

11. **Remuneration of Directors and Officers**

The Corporation's five directors (1984 - six) received $2,175 (1984 - $3,225) from the Agricultural Development Corporation of Saskatchewan. The six senior officers (1984 - six) received in aggregate $358,824 in salaries for 1985 (1984 - $284,356).

12. **Related Party Transactions**

Included in these financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

13. **Famine Relief Program**

In February, 1985, the Corporation was authorized by Order-in-Council to provide management and co-ordination of an international aid project providing food aid to designated African countries on behalf of the Province of Saskatchewan and to borrow money from the Minister of Finance for this purpose.

Total project costs incurred by the Corporation, including $467,565 relating to interest on money borrowed, totalled $8,152,233.

Contributions were received as follows:

Province of Saskatchewan	$4,293,886
Government of Canada	3,838,603
Private donations	19,744
	$8,152,233